



Investment Office

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November 17, 2008

AGENDA ITEM 10a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Institutional Investor Response to Market Conditions
- II. PROGRAM:** Global Equity – Corporate Governance
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

Executive Summary

Market conditions have recently been extremely challenging for institutional investors and have served to identify a number of areas where there are opportunities for improvement. Aspects of these conditions such as broad illiquidity, tremendous price volatility and rapid deleveraging have demonstrated the inadequacy of a variety of market structures and act as fertilizer to stimulate change.

CalPERS is responding to these circumstances in a variety of ways:

- Soliciting concepts and specifics from a wide variety of investment institutions, prior regulatory officials, academics and other thought leaders regarding needed changes.
- Joining with other institutional investors to determine how best to provide focus and action in effectuating change.
- Supporting entities such as the Council of Institutional Investors which are carrying traditional Corporate Governance reform messages.
- Working with outside specialists to understand the interaction of security issuers, investors, market intermediaries and regulators who facilitate the “flow” of investment capital and where this “flow” has collapsed.

- Working with lobbyists and informed sources to try and understand how the process of examining the market circumstances and proposals for change, will be carried to the federal legislative bodies.

There is likely to be a rapid evolution in this environment over the coming weeks and months. CalPERS' staff is determined to be an active participant at all levels of the factual discovery and debate that will attend this evolution. We welcome Investment Committee feedback on this topic.

V. STRATEGIC PLAN:

This item will further the following goals of CalPERS' Strategic Plan:

- Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX. Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

Costs associated with implementing strategies to address market reform as a result of the current financial market crisis are contained within the Investment Office budget.

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